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RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY
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SUBJECT: TFH01: EXPANDING ELECTRICAL ENERGY ALTERNATIVES

¶1. (U) Summary: The National Electrical Energy Company of Honduras has re-issued a request for proposals for 250 megawatts of renewable energy in a way that will allow small to medium-sized producers to compete with larger companies. Many small producers indicate they are ready to submit proposals. Pricing and financing remain difficult for small producers. Demand for electricity is down somewhat this year because of the global recession. The terms of the request for proposals (RFP) were made available October 30; bids must be submitted by December 11. This request for proposals focusing on renewable energy is both forward-thinking and pragmatic. By structuring the RFP to make it more accessible to small- and medium-sized companies, ENEE can diversify its energy-generation assets and buffer itself from the vagaries of global market prices and dependence on a few large companies. End Summary.

¶2. (SBU) The Honduran National Electrical Energy Company (ENEE, for its initials in Spanish) issued a request for proposals in September for 250 megawatts of electricity from renewable sources. Not long after, ENEE withdrew the RFP at the urging of the Honduran Association of Small Producers of Renewable Energy (AHPPER). As explained to EconOff by Elsia Paz, president of AHPPER, the original RFP was withdrawn so it could be modified to make it more accessible to small producers. Instead of one big block of 250 megawatts (MW), which would limit proposals to only one or two large energy producers, the new RFP allows for participation in lots of less than 10 MW, less than 20 MW, and greater than 20 MW, opening the doors to smaller projects. Additional concessions were made in that contracts would be for 15 years for small producers, and 30 years for larger ones. The new RFP was issued on October 30, with proposals due 40 days later. Bids will be opened December 11, and contracts will be awarded before the January 29, 2010 Presidential inauguration.

¶3. (SBU) Paz indicated that more than 45 AHPPER members had already requested the bid specifications. Boris Arevalo, a member of the AHPPER board, told us that among its 65 members, the association has already identified projects to produce 200 MW using renewable resources such as biomass, wind, and hydroelectric plants.

¶4. (SBU) In the RFP, ENEE is accepting bids of between 8.6 cents and 10.2 cents per kilowatt hour. This would fall between current hydroelectric prices at 0.06 to 0.07 cents per kilowatt hour and oil-based thermal plants, running between 19 and 25 cents per kilowatt hour. As reported in local press, Luis Larach, president of the Cortes Chamber of

Industries and Commerce, expects that most renewable energy projects will need to charge 9 to 10 cents per kilowatt hour to meet their costs. Some will need to charge more. The prices small to medium producers will need to charge also depend on financing, which can be problematic. A major lender for such projects, the Central American Bank for Economic Integration, has "paused" its lending to Honduran institutions since the coup of June 28.

15. (U) This RFP comes at a time when ENEE is seeking to meet projected demand through options other than oil, as mandated by the 2007 Law to Promote the Generation of Electrical Energy with Renewable Resources. It also comes at a time when a 50 MW coal-fired plant is significantly behind schedule. While ENEE set the target of 250 MW based on internal projections of future need, it is currently experiencing slightly reduced demand. Peak demand for electricity in 2008 was for 1,224 MW. Peak demand to date in 2009 was 1,203 MW. The manager of Cortes Electricity, Salomon Ordonez, told the local newspaper La Prensa that the global economic crisis has been a greater factor in the reduction of demand than Honduras's political crisis. However, the political situation has had some impact. Demand hit a low for the year of 1,151 MW in September. This was seen as a direct result of the political chaos and extended curfews after the return of President Zelaya to the country on September 21.

16. (SBU) Comment: This request for proposals focusing on renewable energy is both forward-thinking and pragmatic. Many private and public leaders believe that Honduras could

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be a regional leader in renewable energy, which could draw even more investment in this economic sector. At the same time, Honduras needs to find a way to avoid the unpredictability and high costs of oil, upon which it has become increasingly dependent for energy generation. By structuring the RFP to make it more accessible to small- and medium-sized companies, ENEE can diversify its energy-generation assets and buffer itself from the vagaries of global market prices and dependence on a few large companies. End comment.
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